IDAHO FORECAST DESCRIPTION
The Forecast Period is the Fourth Quarter of 2001 through the Fourth Quarter of 2005

The outlook for Idaho's economy has improved since the last *Forecast* was published in January 2002. While this news is welcome, it should be noted that the improvements must be compared to the previously anticipated levels of local economic activity. In the previous forecast Idaho nonfarm employment was projected to grow an anemic 0.5% this year and 1.9% next year. In the current forecast, Idaho nonfarm employment is forecast to rise 0.7% this year and 1.7% next year. The real personal income estimates show a similar pattern. Idaho real personal income is forecast to increase 3.5% this year compared to the 2.2% growth that was previously anticipated. However, Idaho real personal income also should rise 3.5% next year. This is slower than the 3.9% growth forecast last January.

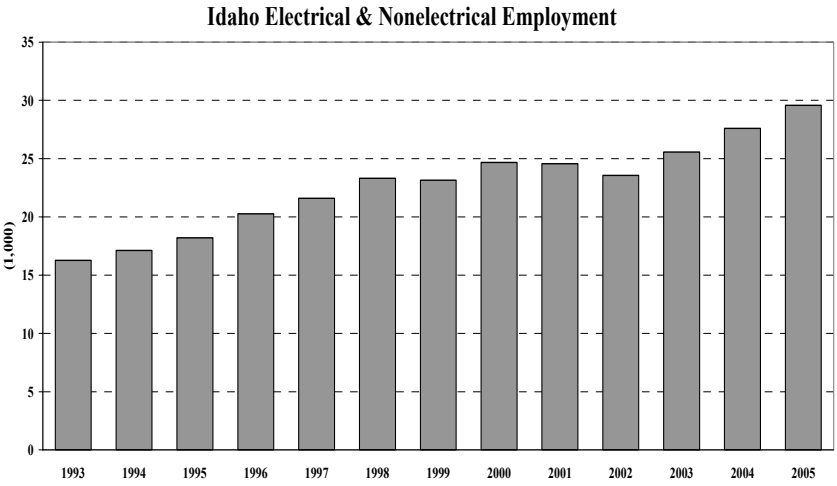
The improvement to Idaho 2002 nonfarm employment growth can be traced to the revised historical data for that year. A comparison of the revised and past forecast data shows we may have been too pessimistic in the past. In the January 2002 *Idaho Economic Forecast* it was projected Idaho nonfarm employment would shrink at a 0.9% annual rate during the third quarter of 2001 and stall in the last quarter. The historical data now show employment performed better than expected. Employment did drop in the third quarter of last year, but by 0.6%, not the forecasted 0.9%. Preliminary data show employment actually expanded at a 0.4% annual rate in the last quarter. In addition, previous historical data showed Idaho nonfarm employment slipped in the second quarter of 2001, but the revised data now show it actually rose. This is consistent with the stronger-than-expected national economy during that time. Of course, the national economic recovery is expected to be slower, and this helps explain why Idaho nonfarm employment grows a tad slower in 2003 than had been forecast earlier.

The recent history and short-term outlook for Idaho personal income were also affected by data revisions. Based on previous data, DFM projected Idaho nominal personal income would rise 3.7% in 2002. After adjusting for inflation, Idaho personal income was anticipated to grow 2.2%. Idaho nominal personal income is now expected to grow 4.8% this year and Idaho real personal income should increase 3.5%. This increase is mostly due to the large revision to the personal income data for the second quarter of 2001. The U.S. Bureau of Economic Analysis originally reported Idaho nominal personal income was just over $32 billion in the second quarter of last year. Revised data show this same measure was $372 million higher. This raised the starting point for the Idaho nominal personal income forecast. A huge adjustment amount ($353 billion) was in the wage and salary payments component. This change also increased the outlook for the state's average annual wage.

Idaho nonfarm employment is forecast to rise about 2.0% in both 2004 and 2005, which is virtually the same as in the previous forecast. Idaho nominal personal income should average about 5.8% growth in 2004 and 2005. In the previous forecast it was slightly higher, about 6.0%. Idaho real personal income should advance 3.4% in 2004 and 3.2% in 2005. This is down just slightly from the prior forecast of 3.4% in 2004 and 3.5% in 2005.

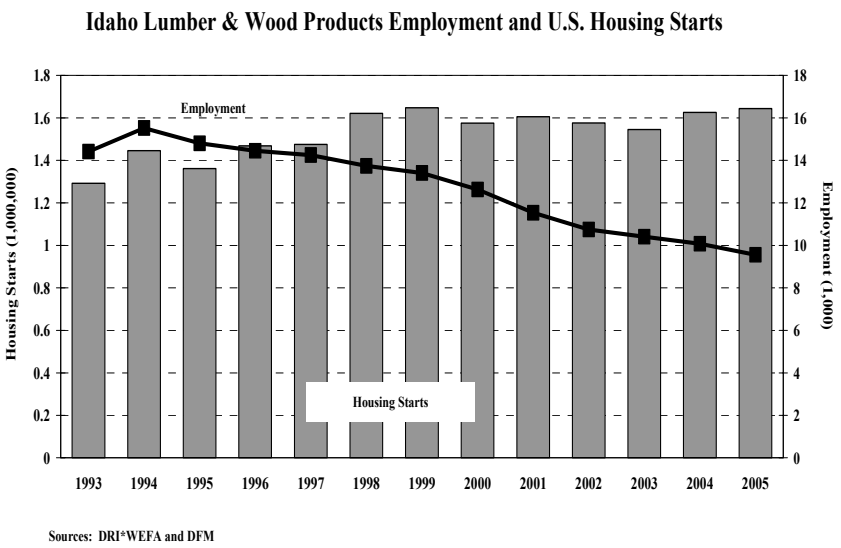
The outlook for the Idaho economy has changed. It seems to be positioning itself for stronger growth down the road. However, a return to the growth rates enjoyed in the 1990s is not likely. But one tradition from the last decade is expected to spill over into this decade. Idaho is still expected to experience stronger economic growth than the nation as a whole over the next few years.

SELECTED IDAHO ECONOMIC INDICATORS

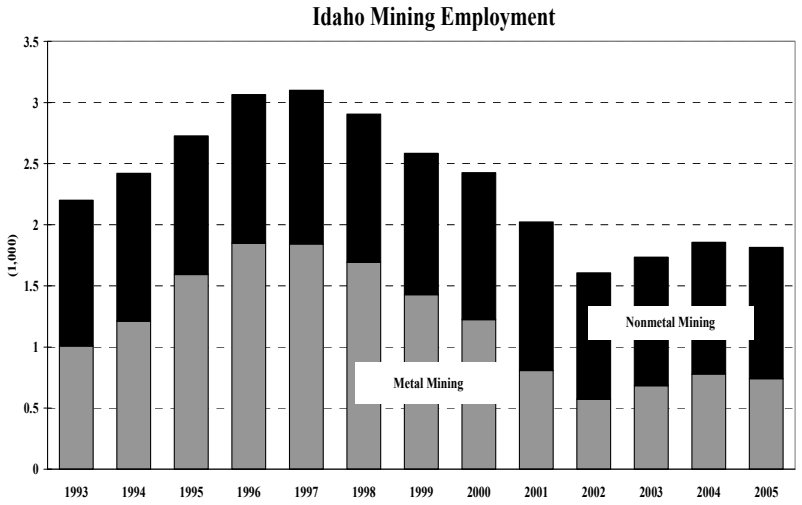


Electrical and Nonelectrical Machinery: This will be a transition year for Idaho's high-tech sector. Idaho machinery employment is anticipated to grow this year, but not enough to offset the severe losses of 2001. However, this sector's employment should gain more solid footing in 2003. Most of this sector's recent woes reflect the longest downturn ever in the nation's high-tech sector. While some components of the high-tech sector were experiencing setbacks previous to last year, it was the collapse in business fixed investment that sent this sector reeling in 2001. Idaho was not immune from this setback and its machinery sector shrank last year. The impact of last year's decline was magnified by the size and speed of the investment collapse compared to its performance in the 1990s. During the second half of the 1990s, U.S. real business investment was an engine of economic growth that grew over 10.0% annually. High-tech investment did particularly well during this period. Fueled by the widespread use of the World Wide Web, the Telecommunications Act of 1996, and Y2K, real combined spending on software, computers, and communications equipment advanced over 25.0% per year. In response to this strong demand, the output of office and computer equipment rose nearly 40% per year from 1995 to 2000 and the output of electronic components grew about 50% per year. This reversed drastically last year. In 2001, real spending on equipment and software declined 4.4%. This put the brakes on office and computer equipment output growth, causing it to slow to just 2.3% in 2001. Electronic component production was even harder hit; it actually shrank 4.6% last year. Gem State companies have announced plans to reduce payrolls by nearly 3,000 persons. These layoffs have been spread across several local firms, such as Hewlett-Packard; Jabil Circuit; Micron Electronics; SCP Global Technologies; Extended Systems; MCMS; and Zilog. A notable exception to the list of high-tech companies announcing layoffs has been Micron Technology. The Boise Valley's largest private employer has not cut jobs during the high-tech industry's current downturn. Instead, it took other measures to combat low prices for its products. One measure, a hiring freeze, has had an impact because the company had produced 100 to 200 new jobs per month. The absence of these new jobs has been felt. In 2001, Idaho machinery employment shrank 0.4%. It should be pointed out that while this decline may seem small, most of the impact appears in 2002. A review of the quarterly data shows this sector had about 3,000 less employees at the end of 2001 than at its beginning, which is consistent with the number of layoffs that took place that year. This lowered the employment level at the start of 2002. In addition, this sector's employment is forecast to increase, but not make up the ground lost in 2001. As a result, machinery employment decreases 4.1% from 2001 to 2002. The reason for 2002's soft showing is due to the expected decline in real business investment. This decline can be traced to the current surplus of manufacturing capacity. U.S. companies will be hesitant to invest while over a quarter of their collective capacity sits idle. Real business investment is anticipated to expand beginning in 2003, but a return to late-1990s' growth rates are not likely. This will limit the recovery in Idaho electrical and nonelectrical machinery employment. Specifically, Idaho's electrical and nonelectrical machinery sector employment is forecast to decline 4.1% in 2002,

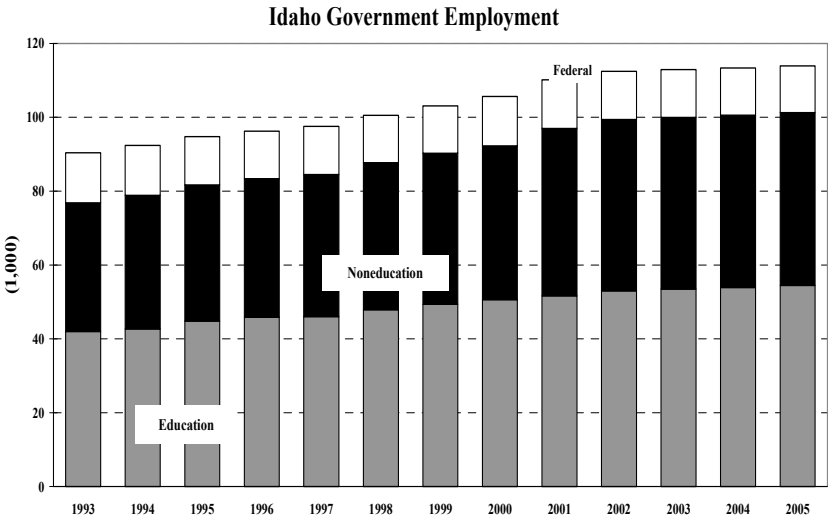
then grow 8.5% in 2003, 8.0% in 2004, and 7.2% in 2005. There are some signs the employment situation is improving. Most notably, Micron Technology announced in early April 2002 that it was ending its hiring freeze. However, the company has not released estimates of how many employees it plans to add.



Lumber and Wood Products: The state's lumber and wood sector employment base is forecast to contract over the forecast period. This continues the declining trend that began in 1995. Just over a decade ago, this sector was the state's largest durable manufacturing employer. The runner up was electrical and nonelectrical employment. However, several years of job declines and rapid high-tech employment growth has cost the lumber and wood products sector its job champion title. By 2001, employment in the lumber and wood products sector was less than half the electrical and nonelectrical machinery sector. It should be noted that mills are often the largest employers in Idaho rural communities, so the impacts of closures are amplified in those locales. But the impact is not limited to loss jobs. Communities with national forests depend on payments in lieu of taxes (PILT) from federal timber sales. In these communities, federal lands are not on property tax rolls. Instead, the communities traditionally receive 25% of the revenue from federal timber sales in their locale. Thus, the declining federal harvests have slowly starved the budgets of rural governments. The Idaho Department of Labor reports PILT to these counties have declined 75% from 1989 to 2000. These communities will get relief in the form of the Craig-Wyden Bill that was passed in 2000. The bill stabilizes timber sales payments by averaging the three highest payments from 1986 to 2000. This sector's problems are not unique to Idaho. The shrinking lumber and wood products sector has been a regional phenomenon. Random Lengths recently reported that there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington, California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. This sector's current slump is the result of the complicated demand/supply relationship facing this industry. The job decline in recent years has been particularly frustrating. National housing starts have flourished over this time, but Idaho lumber and wood product employment has floundered. Specifically, U.S. housing starts have remained near 1.6 million units since 1998. One would expect employment to expand under such strong demand. It has not. In Idaho, lumber and wood product employment fell continuously over the same period. The employment weakness during times of strong demand underscore the rising importance of supply factors in shaping this industry's outlook. Specific examples are not hard to find. The closures of Boise Cascade's Emmett and Cascade plants were blamed on the dwindling supply of federal timber available for harvest in Idaho. Federal records show the amount of timber harvested from federal lands has indeed declined. According to U.S. Department Agriculture, the total amount of timber harvested in Idaho fell from 1.8 million board feet in 1990 to 1.2 billion board feet in 2000, a 31% drop. This data also show that harvests from Idaho national forests fell an astounding 78% over this decade. Idaho lumber and wood products employment is forecast to drop 6.8% in 2002, 3.2% in 2003, 3.2% in 2004, and 5.1% in 2005.

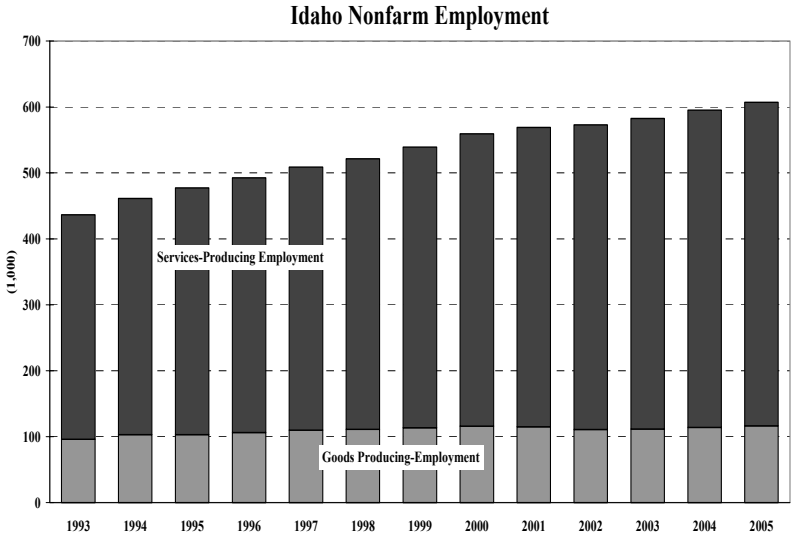


Mining and Chemicals: Like other resource-based sectors, Idaho's mining and chemical industries have struggled recently. Unfortunately, they are not expected to turn around in the near future. The state's mining sector suffered its fourth straight year of employment declines in 2001. After peaking at about 3,100 jobs in 1997 it had just over 2,000 jobs in 2001. Most of the job losses were in the metal mining component, which shed over 1,000 jobs from 1997 to 2001. The state's metal mining sector received two recent blows. The Sunshine Mine closed because the Asarco Smelter in East Helena was shutdown, leaving Sunshine without a place to send its silver concentrate. The Lucky Friday Mine curtailed operations due to low metal prices. Low silver prices have bedeviled Coeur d'Alene Mines Corporation to the point where it has warned shareholders it may have to seek bankruptcy protection. In contrast, nonmetal mining employment was virtually flat over the same period. Something else that happened over this period is worth noting. Nonmetal mining became a larger employer than metal mining. There were about 1,200 nonmetal mining jobs last year compared to 807 metal mining jobs. Unfortunately, it is unlikely that Idaho's mining sector has experienced its last round of job cuts. This sector's payroll is forecast to shrink another 20.6% in 2002. The state's chemical sector has also fallen on hard times. Most notably, Astaris closed its Pocatello elemental phosphorus plant after more than a half a century of operation. Job cuts had been anticipated even before the October 11, 2001 closure announcement. Last March, the company reported its plan to shut down three of its four production furnaces and was planning to reduce its work force by half (around 200) by June 2002. Unfortunately, Astaris is not the only Gem State chemical manufacturer to suffer setbacks. Kerr-McGee closed its Soda Springs vanadium and phosphate plant due to the low price of vanadium. Idaho chemical employment should drop from 2,347 in 2001 to 1,915 in 2005.



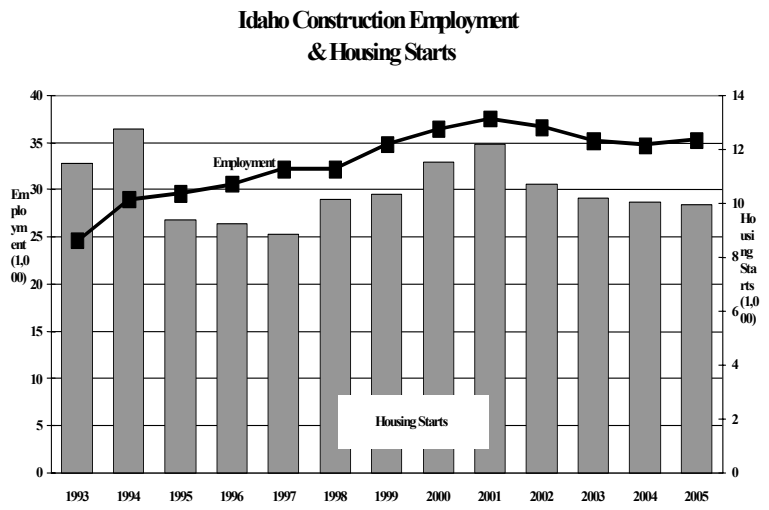
Federal, State, and Local Governments: All components of government employment in Idaho should slow considerably over the forecast period. Idaho state and local government employment enjoyed a growth spurt in the 1990s. This strong growth was fueled primarily by the state's strong population growth. Idaho's population jumped 28.5% from 1990 to 2000. Most of this increase resulted from the wave of new state residents. Specifically, net migration accounted for two-thirds of the increase in total

population. A major attraction for these new Idahoans was the state's strong economy. Idaho's economy grew steadily in the early 1990s, despite the national recession. At the 1990-91 recession's trough in 1991, U.S. nonfarm employment shrank 1.1%. In some states, such as California, the downturn was even more severe. In contrast, Idaho nonfarm employment actually increased a healthy 3.3% in 1991. To many, Idaho was an alluring oasis in an economic desert. But Idaho's attractiveness created new challenges. The combination of the 1980's slow growth and the 1990's rapid rise in population strained the state's infrastructure. In an effort to keep up, Idaho state and local government employment advanced over 3.5% annually during the first half of the 1990s. Even at this pace, Idaho governments were hard pressed to keep up with rapidly expanding needs. It is anticipated that population growth will taper off during the forecast period. This should give Idaho state and local governments the opportunity to catch up with infrastructure needs. As these needs are met, Idaho state and local employment growth is expected to slow. But this not the only factor that will keep Idaho state and local government employment in check over the next few years. Local government budget caps will also limit employment growth. In addition, the current tight state budget environment will keep a lid on job growth. As a result, Idaho state and local government payrolls are expected to advance by no more than one percent annually through 2005. The outlook for federal job growth in the Gem State is worse. Its fate is determined not by local issues, but by Potomac River budget writers. Given the events of September 11, 2001, it appears more federal money will be funneled into national security. The U.S. military has a relatively small presence in this state, so Idaho is not likely to benefit from increased military spending. Idaho federal government employment is anticipated to shrink from 13,138 in 2001 to 12,706 in 2005, a cumulative decline of 3.3%.



Services-Producing Industries: Most of the jobs created over the next few years will be in the state's services-producing sector. One of the reasons is this sector has the largest employment base. In 2001, there were almost 454,000 jobs in this sector. But sheer size alone does not account for its predicted strength. It accounted for about 80% of the total number of Idaho jobs in 2001, but is expected to account for about 96% of the total new job growth over the forecast period. Obviously, additional factors are also fueling growth. The biggest trend transforming it is the ongoing move away from a goods-producing economy to a services-producing one. In 1970, about one of every four jobs in Idaho was in the goods-producing sector (manufacturing, mining, and construction). Three decades later, the goods-producing sector accounted for just one of every five jobs. In the past, services employment was driven by local goods-producing industries. This has changed. As the economy evolves, services-based industries are becoming less dependent on these industries. An example of this trend is the growing number of call centers in Idaho. The call centers are involved in a wide range of activities including sales, help lines, telemarketing, customer services, and market research. Call centers also include a wide variety of business sectors. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. These companies have flourished in Idaho because new technology frees

companies from being located near their markets. Instead, they are drawn to Idaho because of its high quality labor force. This has created opportunities in the Gem State that a few years ago would have seemed impossible. For example, landlocked Boise is the home to an international shipping company's scheduling operations. Although the connection between goods- and services-producing sectors have blurred, they have not been severed. In fact, in some cases they have even been reinforced. Manufacturing firms sometimes use temporary employees to meet their peak demand needs. These employees are often employed by employment services and are counted as service employees. As a result, their numbers wax and wane with the manufacturers' business cycle. Another trend affecting service employment is the increasing presence of national "big-box" merchandisers in the Gem state. Recent openings by such industry giants as Fred Meyer, Home Depot, and Wal-Mart have provided employment opportunities in both urban and rural communities. Services-producing employment is projected to increase 2.4% in 2001, 1.8% in 2002, 1.9% in 2003, 2.2% in 2004, and 2.0% in 2005.



Construction: Idaho's economic growth engine will be short one of its pistons over most of the forecast period. This is a significant change from the recent past. Idaho construction employment had been a star performer during the state's economic expansion. This sector's employment nearly tripled from just under 14,000 in 1987 to 37,537 in 2001, a 7.5% annual growth rate. To put this in perspective, Idaho total nonfarm employment growth averaged 3.9% per year over the same period. The growth in construction employment resulted primarily from the booming housing market caused by the state's rising population. Housing starts surged from about 3,300 units in 1988 to nearly 12,800 units in 1994. Housing starts did settle down to about 9,400 units in 1995, but strong nonresidential construction kept this sector's employment growing. Since then, total housing starts have hovered in the 9,000- to 11,000-unit range. While this was below 1994's peak, it is still about three times higher than in 1988. One of the reasons the construction sector did not collapse was because there was no severe housing inventory overhangs in Idaho. The surge in population strained the supply of housing in the early 1990s, so this industry was in catch-up mode during most of this time. With demand outstripping supply, excess housing inventories did not accumulate. Of course, the construction industry remains cyclical. Falling Idaho housing starts will cause construction employment to contract through 2004. In addition, the Idaho construction employment forecast includes losses associated with the closing of Astaris' Pocatello phosphorus plant. More than 500 construction workers were employed building a waste treatment facility that has been scrapped. Employment is expected to grow again beginning in 2005. Idaho housing starts are forecast to be 12,179 units in 2001, 10,685 units in 2002, 10,168 in 2003, 10,019 units in 2004, and 9,968 in 2005. Idaho construction employment is expected to drop from its peak of 37,537 in 2001 to 35,310 in 2005.